

Tax Strategies for Financing Landfill Gas Projects

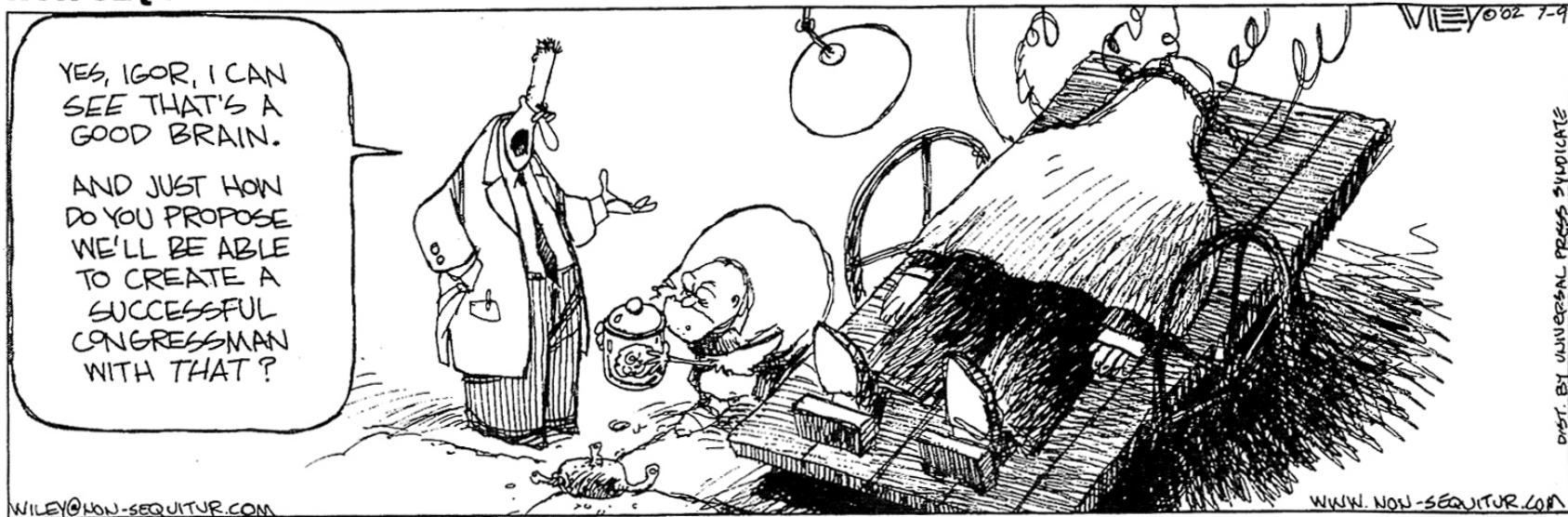
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Landfill gas projects qualify for significant tax benefits. The main rewards in the past have been for producing gas. However, if the energy bill passes Congress, the emphasis will shift — with the biggest rewards in the future going to companies that use landfill gas to generate electricity. This will cause a change in deal structures.

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There are three main tax benefits today for landfill gas projects. The tax savings are potentially worth 220% of the capital cost of a gas collection system, 27% of the cost of electric generating equipment, and 31% of the cost of equipment to clean gas to pipeline quality. State tax benefits add on average another 3%.

**basic tax depreciation
depreciation "bonus"
section 29 tax credits**

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The problem with tax benefits is smaller developers and municipalities lack the tax base to use them. Therefore, they must find way to share in the value indirectly by selling the gas collection system to an institutional investor for a sales price that reflects the tax benefits.

“monetization” structures

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**The owner of equipment can deduct the cost over time. This is called "depreciation."
The tax deductions have a value.**

27.78¢ - gas collection system

19.92¢ - electric generator

27.78¢ - cleanup equipment

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There might be another 3¢ to 7¢ in tax benefits if the equipment qualifies for a "depreciation bonus." The US government is allowing faster writeoffs on new equipment put into service during a window period that runs from September 11, 2001 through 2004.

50% bonus started May 6

“committed”?

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Gas from most wells put into service between January 1993 and June 1998 qualifies for a tax credit of \$1.059 an mmBtu. These credits can be claimed on the gas output through 2007. The remaining credits have a present value at the average landfill of \$1.918 million.

3.477 million tons

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There is an active market in projects with section 29 credits, with such projects selling for as much as \$1.21 per dollar of tax credit. However, the problem with landfill gas deals is their small size. There is a need for an aggregator to bundle together groups of projects.

70¢ to 95¢

nonstandard contracts

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The energy bill currently stalled in Congress would throw more tax benefits at landfill gas projects and, in the process, change how deals are structured. There are two new benefits.

prospects?

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The bill would breathe new life into section 29 credits — but just barely. The bill would allow credits to be claimed on gas from wells put into service between July 1998 and December 2006. However, the total credits that could be claimed would be capped at \$37,741 a year *per project*.

51.7¢

poor drafting

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The bill would also allow a tax credit of 1.2¢ a kWh to be claimed by anyone using landfill gas to generate electricity. These credits could be claimed for five years. Only new generators put into service after Bush signs the bill would qualify.

NPV = \$1.2 million

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Institutional investors will be more interested in the future in owning the generating equipment rather than the collection system. This is a change from today. Also, it will make less sense in the future to clean gas to pipeline quality.

**separate legal entities
anti-double dip**

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Renewable energy credits — called RECs — in eight states are a potential source of additional value in landfill gas projects. They belong to the company that uses the gas to generate electricity.

**0.5¢ to 2¢ a kWh
FERC ruling**

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Some electricity generators may be entitled to money back from utilities for amounts they paid for "network upgrades" — or improvements to the utility grid.

**FERC policy
existing contracts
energy bill**

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Landfills that are listed as "Superfund" sites got bad news from a federal court in Michigan in August. They cannot deduct amounts set aside to cover their ongoing obligations after the landfill closes during periods when the landfill is on the "national priorities list."

sec. 468

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**Projected percentage by which melting Arctic
ice will shorten shipping routes between
Europe and East Asia by 2020:**

33%

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**Number of seconds that the average
person can wait for an elevator
before becoming visibly agitated:**

40

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“When I die, I hope it’s in a meeting. The transition from life to death will be barely perceptible.”

— Anonymous

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